

STATE DOCUMENTS

NO 3 75

STATE OF MONTANA
DEPARTMENT OF ADMINISTRATION
MERIT SYSTEM BUREAU
REPORT ON EXAMINATION OF FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 1976



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MONTANA
STATE CAPITOL • HELENA

Montana State Library



3 0864 1003 6351 7



STATE OF MONTANA
DEPARTMENT OF ADMINISTRATION
MERIT SYSTEM BUREAU
REPORT ON EXAMINATION OF FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 1976

TABLE OF CONTENTS

	<u>Page</u>
Appointive and Administrative Officials	iii
Summary of Recommendations	iv
Scope of Examination and Opinion	vi
Comments	1
General	1
Bureau Accounting Procedures	2
Plant, Property and Equipment	4
Postage Stamp Inventory Controls	6
Personal Services	6
Time Records	7
Leave Request Forms	7
Leave Request and Approval Procedures	8
Birthdays Off With Pay	10
Payroll Internal Control	10
Expenditures	11
Contracted Services	11
Travel Voucher Review	12
Lease Payments	13
Final Comments	13
<u>Financial Statements:</u>	
Balance Sheet, June 30, 1976	14
Statement of Revenue Compared to Revenue Estimates	15
Statement of Expenditures Compared With Appropriations	16
Statement of Expenditures by Object	17
Statement of Changes in Fund Balances	18

	<u>Page</u>
Statement of Changes in General Fixed Assets	19
Notes to the Financial Statements	20
<u>Agency Replies:</u>	
Merit System Bureau	22
Department of Administration	27

APPOINTIVE AND ADMINISTRATIVE OFFICIALS

MERIT SYSTEM COUNCIL

		<u>Term Expires</u>
Father Joseph D. Harrington, Chairman	Helena	May 1980
George B. Schotte	Butte	May 1978
Charles J. Seifert	Helena	May 1982

DEPARTMENT OF ADMINISTRATION

Jack C. Crosser	Director
Lawrence E. D'Arcy	Deputy Director
Doyle B. Saxby	Deputy Director

MERIT SYSTEM BUREAU

Clifford T. McGillvray	Bureau Chief
Dennis L. Bethke	Assistant Bureau Chief
Esther Moen	Bureau Accountant

SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each audit report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto and also as a ready reference to the supporting comments. The full replies of the Merit System Bureau and the Department of Administration are included in the back of this report.

	<u>Page</u>
The Department of Administration delegate to the bureau the authority to administer its own transactions as long as the bureau remains separate from the Personnel Division.	4
<u>Agency Reply:</u> Concur. See page 22.	
<u>Department of Administration Reply:</u> Concur. See page 27.	
Establish proper inventory controls in compliance with Management Memo 70-17.	5
<u>Agency Reply:</u> Concur. See page 23.	
Dispose of unused or obsolete assets in accordance with Section 82-1914, R.C.M. 1947.	6
<u>Agency Reply:</u> Concur. See page 23.	
Maintain inventory records for CETA equipment on loan from the Employment Security Division.	6
<u>Agency Reply:</u> Concur. See page 23.	
Use the Capitol post office postage metering service for all mail.	6
<u>Agency Reply:</u> Concur. See pages 23 and 24.	
Implement time sheets to insure adequate documentation of all hours worked and leave taken.	7
<u>Agency Reply:</u> Concur. See page 24.	
Require formal approval of time sheets.	7
<u>Agency Reply:</u> Concur. See page 24.	

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
Require proper completion of requests for leave of absence.	8
<u>Agency Reply:</u> Concur. See page 24.	
Require employees to complete a separate leave request for each absence.	9
<u>Agency Reply:</u> Partially concur. See page 24.	
Approve in advance requests for leave of absence other than sick leave.	9
<u>Agency Reply:</u> Concur. See page 24.	
Establish adequate controls in compliance with the Montana Administrative Manual to prevent excessive or improper use of sick leave.	9
<u>Agency Reply:</u> Concur. See pages 24 and 25.	
Discontinue granting employees their birthdays off with pay.	10
<u>Agency Reply:</u> Concur. See page 25.	
Separate the payroll preparation from payroll warrant and W-2 form distribution responsibilities.	11
<u>Agency Reply:</u> Concur. See page 25.	
Require contracts with providers of contracted services.	12
<u>Agency Reply:</u> Concur. See page 25.	
Require adequate supporting documentation on invoices for contracted services.	12
<u>Agency Reply:</u> Concur. See page 25.	
Review all travel expense vouchers for compliance with travel regulations.	13
<u>Agency Reply:</u> Concur. See page 25.	
Seek reimbursement of parking fee overpayments.	13
<u>Agency Reply:</u> Concur. See page 25.	

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59601
406/449-3122



MORRIS L. BRUSETT
LEGISLATIVE AUDITOR

DEPUTY LEGISLATIVE AUDITORS:

JOSEPH J. CALNAN
ADMINISTRATION AND
PROGRAM AUDITS

ELLEN FEAVER
FINANCIAL-COMPLIANCE AND
CONTRACTED AUDITS

STAFF LEGAL COUNSEL
JOHN W. NORTHEY

To the Legislative Audit Committee
of the Montana State Legislature:

We have examined the balance sheet of the Merit System Bureau as of June 30, 1976, and the related statements of revenue compared to revenue estimates, expenditures compared with appropriations, expenditures by object, changes in fund balances, and changes in general fixed assets for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of the Merit System Bureau as of June 30, 1976, and the results of its operations and changes in fund balances for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Respectfully submitted,

Morris L. Bruset

Morris L. Bruset, C.P.A.
Legislative Auditor

October 22, 1976

COMMENTS

GENERAL

The Merit System Council was originally created in 1940. The council, which was established in its present form by Section 82A-206, R.C.M. 1947, consists of three members appointed by the Governor. The Merit System Bureau Chief, who directs the operation of the Merit System Bureau, is appointed by and is responsible to the Merit System Council. The bureau is assigned to the Department of Administration for administrative purposes.

The bureau maintains a continuous, statewide recruitment and examination program for approximately 2,200 positions in the 12 merit system member agencies to meet federal and state requirements for merit system coverage. Merit system examinations are scheduled in eleven cities throughout the state and in the Helena office on a periodic basis. Tests are also scheduled at Employment Security Division offices to fill specific vacancies.

Merit system member agencies share the cost of operating the bureau, based on a budget which the member agencies approve. Legislative appropriations provide final expenditure authority. The share of the budget to be paid by each member agency is computed using a ratio of the number of merit system-covered employees in each agency to the total number of merit system-covered employees in the state. The member agencies paid the following amounts to the Merit System Bureau during fiscal year 1975-76:

Department of Social and Rehabilitation Services	\$ 64,394
Department of Labor and Industry, Employment Security Division	31,384
Department of Health and Environmental Sciences	29,276
South Central Regional Mental Health Center	2,782

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59601
406/449-3122



MORRIS L. BRUSETT
LEGISLATIVE AUDITOR

DEPUTY LEGISLATIVE AUDITORS:

JOSEPH J. CALNAN
ADMINISTRATION AND
PROGRAM AUDITS

ELLEN FEAVER
FINANCIAL-COMPLIANCE AND
CONTRACTED AUDITS

STAFF LEGAL COUNSEL
JOHN W. NORTHEY

To the Legislative Audit Committee
of the Montana State Legislature:

We have examined the balance sheet of the Merit System Bureau as of June 30, 1976, and the related statements of revenue compared to revenue estimates, expenditures compared with appropriations, expenditures by object, changes in fund balances, and changes in general fixed assets for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of the Merit System Bureau as of June 30, 1976, and the results of its operations and changes in fund balances for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Respectfully submitted,

A handwritten signature in cursive script that reads "Morris L. Brusett".

Morris L. Brusett, C.P.A.
Legislative Auditor

October 22, 1976

COMMENTS

GENERAL

The Merit System Council was originally created in 1940. The council, which was established in its present form by Section 82A-206, R.C.M. 1947, consists of three members appointed by the Governor. The Merit System Bureau Chief, who directs the operation of the Merit System Bureau, is appointed by and is responsible to the Merit System Council. The bureau is assigned to the Department of Administration for administrative purposes.

The bureau maintains a continuous, statewide recruitment and examination program for approximately 2,200 positions in the 12 merit system member agencies to meet federal and state requirements for merit system coverage. Merit system examinations are scheduled in eleven cities throughout the state and in the Helena office on a periodic basis. Tests are also scheduled at Employment Security Division offices to fill specific vacancies.

Merit system member agencies share the cost of operating the bureau, based on a budget which the member agencies approve. Legislative appropriations provide final expenditure authority. The share of the budget to be paid by each member agency is computed using a ratio of the number of merit system-covered employees in each agency to the total number of merit system-covered employees in the state. The member agencies paid the following amounts to the Merit System Bureau during fiscal year 1975-76:

Department of Social and Rehabilitation Services	\$ 64,394
Department of Labor and Industry, Employment Security Division	31,384
Department of Health and Environmental Sciences	29,276
South Central Regional Mental Health Center	2,782

Department of Justice, Crime Control Division	2,520
Eastern Montana Regional Mental Health Center	1,635
North Central Community Mental Health Center	1,568
Southwestern Montana Drug Program	1,229
Department of Military Affairs, Civil Defense Division	740
Department of Labor and Industry, Workers' Compensation Division	545
Western Montana Regional Community Mental Health Center ¹	454
Governor's Office, Addictive Diseases Unit ²	336
Office of the Superintendent of Public Instruction, Surplus Property Program	335
Department of Institutions, Mental Health Bureau ²	153
Total Payments Fiscal Year Ending June 30, 1976	<u>\$137,351</u>

¹ This agency is no longer a member of the merit system.

² These agencies are presently members of the merit system under the Department of Institutions' Adaptive Services Division.

The bureau also received Comprehensive Employment and Training Act (CETA) funds during fiscal year 1975-76 to fund three additional positions.

BUREAU ACCOUNTING PROCEDURES

The bureau's accounting responsibilities changed during fiscal year 1975-76. Previously, the bureau accountant handled all payroll and other transactions. The bureau accountant and the Department of Administration, director's office, now share these responsibilities. The bureau accountant directly inputs all collection reports and some no warrant transfers into the Statewide Budgeting and Accounting System (SBAS). For other accounting transactions, the bureau accountant forwards the necessary information to the director's office, which is responsible for inputting SBAS documents.

Payroll accounting responsibilities are shared in a similar manner, with the bureau accountant maintaining employee time and leave records. These records provide the basis for a bi-weekly time summary which the bureau accountant submits to the director's office. The bureau accountant also prepares payroll status forms and termination forms which are

approved by the bureau chief. The director's office prepares the bi-weekly, pre-payroll form based on the information provided by the bureau accountant. The Department of Administration's director or one of his deputies approves the pre-payroll and submits it to the Central Payroll Division.

Under these procedures, there is duplication of effort, especially in the preparation of SBAS documents. The bureau accountant codes facsimile SBAS forms which are sent to the director's office. The director's office staff in turn transfers the information to the actual SBAS form for submission to the Accounting Division.

Other related problems include: (1) before-the-fact payroll preparation; (2) delays in processing vendor payments and other transactions handled by the director's office; and (3) inability to properly reconcile with SBAS, since both the bureau and the director's office maintain separate document logs, and each has input as well as filed SBAS documents that the other does not have.

On June 30, 1976, the bureau had expenditure accruals totaling \$101 more than the available cash in treasury. This situation was primarily due to bureau employees' inability to properly reconcile bureau records with SBAS. Although the bureau did not exceed its appropriation authority, it was not in compliance with Section 79-901, R.C.M. 1947, which requires that no state official shall incur or permit the incurrence of any obligations in excess of the income provided for such year. The bureau did receive refunds subsequent to year-end, but these were not expected at the time the overaccrual was made. By centralizing accounting responsibilities and records, the bureau should be able to prevent a recurrence of this problem.

Although the Department of Administration has the authority to administer the bureau's transactions, the physical separation of the bureau from the department and its "attached to" status have not allowed efficient centralization of these responsibilities. Because of the problems with the current system, the department should delegate authority for SBAS and payroll document preparation back to the bureau as long as it remains separate and distinct from the department. With this authority, the bureau would be able to (1) prepare pre-payrolls on an after-the-fact basis, (2) completely reconcile with SBAS at month-end, (3) have better expenditure control at year-end, and (4) process documents on a current basis.

The Department of Administration and the Merit System are working on a proposed voluntary agreement to make the bureau part of the Department of Administration's Personnel Division. If this proposal is implemented, we would support the centralization of the administrative authority within the Department of Administration.

RECOMMENDATION

We recommend that the Department of Administration delegate to the bureau the authority to administer its own transactions as long as the bureau remains separate from the Personnel Division.

Plant, Property and Equipment

Management Memo 70-17 specifies the responsibilities of state agencies regarding state property within their jurisdiction. The bureau has not complied with these requirements.

The bureau's fixed asset records consist of a card file which identifies fixed assets, purchase date, purchase price and other relevant information. Our tests of these records revealed the weaknesses described below. The bureau:

- (1) Does not conduct an annual physical inventory;
- (2) Has not established identification procedures to tag and control equipment;
- (3) Has failed to dispose of unused or obsolete assets;
- (4) Maintains inadequate documentation of asset disposal;
- (5) Has used improper asset valuation methods.

The Employment Security Division has loaned office equipment to the bureau for use by Comprehensive Employment Training Act (CETA) employees. The bureau should maintain fixed asset records for these items since it is responsible for the safekeeping and return of the equipment when the CETA sub-grant terminates.

Without the needed supporting documentation, identification and controls, it is possible for fixed assets to be lost or stolen without management's knowledge. We tested the card file inventory, and after we proposed adjustments, we were able to prepare a statement of general fixed assets which illustrates the dollar value of the bureau's assets. However, physical control must be improved in order to safeguard the assets.

RECOMMENDATION

We recommend that the bureau:

1. *Establish proper inventory controls in compliance with Management Memo 70-17.*

2. *Dispose of unused or obsolete assets in accordance with Section 82-1914, R.C.M. 1947.*
3. *Maintain inventory records for CETA equipment on loan from the Employment Security Division.*

Postage Stamp Inventory Controls

The bureau maintains a postage stamp inventory of over \$1,000 for mailing letters and packages of test materials. The present internal controls are inadequate to safeguard these stamps, which are kept in two locations accessible to most bureau employees and are locked up only at night. There are also no postage usage records which would enable bureau management to discover discrepancies.

Since stamps are negotiable, it is important that the postage inventory be kept to a minimum. The bureau could completely eliminate its postage stamp inventory by using the postage metering service provided by the Capitol post office. This metering service would also strengthen expenditure controls and provide better records of postage expenditures.

RECOMMENDATION

We recommend that the bureau use the Capitol post office postage metering service for all mail.

Personal Services

During fiscal year 1975-76, the bureau expended \$130,781 for personal services--\$115,947 for salaries and other compensation and \$14,834 for employee benefits (see financial statement on page 17). Since these expenditures represent 83 percent of total agency expenditures for the year, it is important that the bureau have an adequate

system to control and review payroll expenditures. In our examination we noted the personnel and payroll problems discussed below.

Time Records

The bureau did not have adequate time records to support payroll expenditures during fiscal year 1975-76. The only time records maintained were sign in/out sheets implemented in September 1975 and request for leave of absence forms.

These sign in/out sheets only documented employee activity during normal working hours. They did not document reasons for absences, travel time or overtime hours worked by employees. There was no documented supervisory approval of each sign in/out sheet. There were no time records other than leave requests for the bureau chief because his name was not included on the sign in/out sheet.

Proper internal controls require adequate documentation to insure payment for hours actually worked. Time sheets are an accepted method of documenting hours worked and leave taken.

RECOMMENDATION

We recommend that the bureau:

- 1. Implement time sheets to insure adequate documentation of all hours worked and leave taken.*
- 2. Require formal approval of time sheets.*

Leave Request Forms

During our audit we found numerous incomplete leave request forms with the explanation and reason for absence sections not properly completed.

It is essential that employees complete the explanation section for sick leave so that supervisors can evaluate the propriety of sick leave taken. The reason for absence section should always be checked off to provide additional explanation. This check off is especially important in distinguishing between regular sick leave and emergency sick leave.

RECOMMENDATION

We recommend that the bureau require proper completion of requests for leave of absence.

Leave Request and Approval Procedures

During our review of the bureau's leave procedures, we found that the bureau does not have adequate safeguards against improper usage of leave.

Bureau employees completed only one leave request form for all absences during a given month. Although the bureau chief advised us that the employees generally received verbal approval before taking vacation and that they called in when sick, the leave forms were not approved by the bureau chief until after the end of each month. The only check against unrecorded leave is a record of absences maintained by the bureau accountant. While this record is compared with leave request forms at the end of each month, it is in memoranda form only. By waiting to complete and approve leave requests until the end of the month, employees may forget absences or purposely omit them.

The Montana Administrative Manual does not specify how or when the request for leave of absence form is to be completed. However, proper internal controls require that absences be approved and documented in

advance, if possible, to ensure that all absences are properly authorized and recorded.

We found several employees who possibly misused their sick leave. These employees appeared to be keeping their sick leave balances at a minimum so that they could terminate at any time without losing a significant portion of their sick leave. Section 1-0304.73 of the Montana Administrative Manual requires that sick leave records contain sufficient detail so that improper, repetitive or excessive use of sick leave credits can be discovered. Because of inadequate leave records, the bureau has failed to meet this requirement. While some of the sick leave used might have been proper, there was inadequate information to justify leave taken.

The bureau did not act promptly in a situation where an employee abused her leave privileges by taking leaves of absence without notification of supervisors and without their approval. No action was taken until approximately seven months after the problem became apparent. It is essential that bureau management personnel act promptly in the future to prevent improper use of employee leave.

RECOMMENDATION

We recommend that the bureau:

- 1. Require employees to complete a separate leave request for each absence.*
- 2. Approve in advance requests for leave of absence other than sick leave.*
- 3. Establish adequate controls in compliance with the Montana Administrative Manual to prevent excessive or improper use of sick leave.*

Birthdays Off With Pay

Bureau employees have been allowed to take their birthdays off with pay, and the time off has been recorded as eight hours of regular time worked. The bureau chief said that this is his way of acknowledging the excellent work done by his employees.

Such leave is contrary to Montana's statutes and administrative regulations which only authorize four basic types of leave: (1) sick leave; (2) vacation leave; (3) compensatory time off; and (4) leave without pay. Birthdays taken off cost the bureau approximately \$500 annually in unauthorized payroll expenditures.

RECOMMENDATION

We recommend that the bureau discontinue granting employees their birthdays off with pay.

Payroll Internal Control

Proper internal control requires a separation of payroll preparation and payroll warrant distribution functions to ensure accurate recording of transactions and safeguarding of assets. The bureau has not established such a separation.

The bureau accountant is responsible for preparation of payroll status forms, payroll termination forms and time records submitted to the Department of Administration, director's office for preparation of the bi-weekly pre-payroll forms. The bureau accountant also distributes payroll warrants. A similar problem exists in relation to W-2 forms received by the bureau at calendar year end. The bureau accountant is responsible for distributing the W-2 forms.

Without a separation of payroll preparation from distribution of payroll warrants and W-2 forms, the bureau does not have adequate control to prevent "ghost" employees from being placed on the payroll. While we found no such employees during the audit period, the bureau should establish a division of duties to provide an independent verification of employee existence.

RECOMMENDATION

We recommend that the bureau separate the payroll preparation from payroll warrant and W-2 form distribution responsibilities.

EXPENDITURES

The financial statement on page 17 shows that the bureau spent \$26,478 on expenditures for other than personal services. During our review of these expenditures, we found several problems with the methods used by the bureau to make payments to contractors and vendors and the method used to record those transactions in bureau accounting records. These problems are discussed below.

Contracted Services

The bureau appoints a Butte attorney as the merit system hearings officer as needed. There is no formal contract between the attorney and the bureau regarding fees and services to be provided. The only related documentation is a letter of appointment. The attorney billed \$1,500 during fiscal year 1975-76 for his services on a lump sum basis, with little supporting documentation.

By failing to specify services required, fee levels and billing procedures, the bureau leaves itself open for excessive bills. Under present procedures, the bureau's management cannot verify services

provided; therefore, they cannot determine that amounts billed are proper and reasonable.

The bureau should develop a contract which specifies the services to be provided, payment rates, and completion dates. The bureau should also develop billing forms which require the contractor to properly document the services provided.

RECOMMENDATION

We recommend that the bureau:

- 1. Require contracts with providers of contracted services.*
- 2. Require adequate supporting documentation on invoices for contracted services.*

Travel Voucher Review

The bureau accountant does not completely review travel expense vouchers for propriety. While she does test the overall computation on the voucher, she does not review the voucher for completeness or the mileage or per diem rates claimed.

To ensure adequate internal control and submission of correct and properly supported travel expense vouchers, it is essential that the accountant review each travel expense voucher for compliance with travel requirements. She should notify the employee of any errors. Over and underpayments of travel costs will result without such an independent review. We reviewed eight claims and found errors in all eight. While the dollar amount of the errors we noted was not significant, review procedures should prevent errors.

RECOMMENDATION

We recommend that the bureau review all travel expense vouchers for compliance with travel regulations.

Lease Payments

The bureau leased office space during fiscal year 1975-76, and the lease agreement included provisions for parking permits for bureau employees. The bureau paid parking fees in excess of those specified by the lease agreement.

The problem resulted when the lessor raised the parking fees to \$68 a month--\$28.50 more a month than specified in the lease agreement. The bureau incorrectly paid the additional \$28.50 for nine months until the lease ran out on June 30, 1976.

While the lease agreement provided for automatic rental increases when increases occurred in charges for gas, electricity, water, and taxes, including special assessments, there was no provision in the lease for changes in parking permit fees. The bureau should seek reimbursement of the \$257 overpayment made to the lessor.

RECOMMENDATION

We recommend that the bureau seek reimbursement of parking fee overpayments.

FINAL COMMENTS

We have reviewed this report with the Merit System bureau chief, his staff, and the director of the Department of Administration. The full texts of their written responses to this report begin on page 22.

We wish to express our appreciation to these officials and their respective staffs for cooperation and assistance during the audit.

FINANCIAL STATEMENTS

MERIT SYSTEM BUREAU
ALL FUNDS
BALANCE SHEET
 JUNE 30, 1976

	<u>Earmarked Revenue Fund</u>	<u>Federal and Private Revenue Fund</u>
<u>ASSETS</u>		
Cash in Treasury	\$4,324	\$-0-
Total Assets	<u>\$4,324</u>	<u>\$-0-</u>
<u>LIABILITIES AND FUND BALANCE</u>		
Accrued Expenditures	\$4,412	\$-0-
Stale Dated Warrants	13	-0-
Fund Balance	<u>(101)</u>	<u>-0-</u>
Total Liabilities and Fund Balance	<u>\$4,324</u>	<u>\$-0-</u>

MERIT SYSTEM BUREAU
ALL FUNDS
STATEMENT OF REVENUE COMPARED TO REVENUE ESTIMATES
FISCAL YEAR ENDING JUNE 30, 1976

	<u>Earmarked Revenue Fund</u>		<u>Federal and Private Revenue Fund</u>	
	<u>Estimated</u>	<u>Actual</u>	<u>Estimated</u>	<u>Actual</u>
Reimbursements				
CETA Comprehensive	\$ -0-	\$ -0-	\$23,654	\$19,357
Employment Training - Title II				
Income Collections and Transfers				
Pro-rata Merit System Payments	<u>140,024</u>	<u>137,351</u>	<u>-0-</u>	<u>-0-</u>
Total Revenue	<u>\$140,024</u>	<u>\$137,351</u>	<u>\$23,654</u>	<u>\$19,357</u>

MERIT SYSTEM BUREAU
ALL FUNDS
STATEMENT OF EXPENDITURES COMPARED WITH APPROPRIATIONS
PERSONNEL SERVICES PROGRAM
 FISCAL YEAR ENDED JUNE 30, 1976

	<u>Earmarked Revenue Fund</u>	<u>Federal and Private Revenue Fund</u>
Appropriations	\$140,024	\$ -0-
Budget Amendments	<u>-0-</u>	<u>23,654</u>
Total Available	140,024	23,654
Withdrawals	137,902	-0-
Expenditures	<u>-0-</u>	<u>19,357</u>
Unexpended Balance	<u>\$ 2,122</u>	<u>\$ 4,297</u>

MERIT SYSTEM BUREAU
ALL FUNDS
STATEMENT OF EXPENDITURES BY OBJECT
FISCAL YEAR ENDED JUNE 30, 1976

	<u>Personnel Services Program</u>	
Personal Services		
Salaries	\$115,647	
Other Compensation	300	
Employee Benefits	<u>14,834</u>	
Total Personal Services		\$130,781
Operating Expenses		
Contracted Services	3,876	
Supplies and Materials	2,923	
Communications	5,491	
Travel	2,211	
Rent	9,487	
Repair and Maintenance	796	
Other Expenses	<u>1,505</u>	
Total Operating Expenses		26,289
Equipment		189
Total Expenditures		<u><u>\$157,259</u></u>

MERIT SYSTEM BUREAU
ALL FUNDS
STATEMENT OF CHANGES IN FUND BALANCES
FISCAL YEAR ENDED JUNE 30, 1976

	<u>Earmarked Revenue Fund</u>	<u>Federal and Private Revenue Fund</u>
Balance, July 1, 1975	\$ 550	\$ -0-
Additions:		
Reimbursements	-0-	19,357
Income Collections and Transfers	<u>137,351</u>	<u>-0-</u>
Total Balance and Additions	137,901	19,357
Deductions:		
Withdrawals		
Current year	137,902	-0-
Prior year adjustments	40	-0-
Expenditures		
Current year	-0-	19,357
Prior year adjustments	<u>60</u>	<u>-0-</u>
Balance, June 30, 1976	<u>\$ (101)</u>	<u>\$ -0-</u>

MERIT SYSTEM BUREAU
STATEMENT OF CHANGES IN GENERAL FIXED ASSETS
YEAR ENDED JUNE 30, 1976

Equipment - Balance June 30, 1975	\$14,419
Additions:	
Microfiche Reader	<u>189</u>
Equipment - Balance June 30, 1976	<u>\$14,608</u>

MERIT SYSTEM BUREAU

NOTES TO FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 1976

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The preceding financial statements were prepared from the Statewide Budgeting and Accounting System with the exception of financial statements for general fixed assets. The Statewide Budgeting and Accounting System does not include a system of recording general fixed assets. The financial statements for general fixed assets were prepared from agency records.

The State of Montana uses the modified accrual basis of accounting which is defined as "that method of accounting in which expenditures are recorded on the basis of valid obligations and revenues are recorded when received in cash. At the end of a fiscal year, all valid obligations against an appropriation are to be accrued as expenditures as provided by the law." (Montana Administrative Manual, 2-0240.40.)

2. EXPENDITURES AND WITHDRAWALS

The transfer of funds by Merit System member agencies to support the bureau's operation are recorded as support expenditures by these agencies. Support expenditures are those amounts expended for general state operations exclusive of capital outlay and local assistance expenditures.

To prevent overstating the state's financial operations, an item may be accounted for as a support expenditure only once. As a result, the bureau records the use of these funds to pay its expenses as withdrawals, which are disbursements that do not directly relate to the cost of operating state government.

3. RETIREMENT PLAN

The bureau's employees are covered by the Public Employees' Retirement System, a contributory plan under which the state contributes 5.55 percent of an employee's gross wages and the employee contributes 6 percent of his gross wages. The bureau incurred pension costs of \$5,720 during fiscal year 1975-76.

4. VACATION AND SICK PAY

Liabilities incurred because of employees' unused vacation and sick pay are not recorded. The related expenditures are recorded when paid. Permanent employees are allowed to accumulate and carryover a maximum of two years' vacation into a new calendar year. Upon termination, qualifying permanent employees having unused accumulated vacation and sick leave receive payment for vacation on a 100 percent basis and sick leave on a 25 percent basis. The amount of the liability associated with unused, accumulated vacation and sick leave at June 30, 1976, is maintained on an hourly basis rather than by dollar amount. The monetary liability is not calculated until an employee terminates.

5. LEASE OF OFFICE SPACE

During fiscal year 1975-76 the bureau had a written lease agreement for office space. This agreement expired June 30, 1976. At present the bureau rents its space on a month-to-month basis and is paying approximately \$730 per month for office rental.

AGENCY REPLIES



STATE OF MONTANA
DEPARTMENT OF ADMINISTRATION
MERIT SYSTEM COUNCIL
CAPITOL STATION
HELENA 59601

RECEIVED

JUN 9 1977

MONTANA LEGISLATIVE AUDITOR

Morris L. Brusett
Legislative Auditor
State Capitol
Helena, Montana

Dear Mr. Brusett:

The Merit System Council has received the discussion draft of your report on examination of financial statements.

We have indicated to the State Auditor that the Merit System Council's financial statement to be issued in August, 1977 will reflect a balance of \$67.96 rather than the \$101.00 deficit expenditure accrual as listed in paragraph three (3), page three (3) of the Auditor's report. Such deficit expenditure accrual is the first since the Merit System was incepted in 1940 and came at a time when the Council had no authority over its financial transactions.

The second paragraph on page four (4) of your report indicates the Department of Administration and the Merit System Council are working on an agreement to merge the Merit System and the Department of Administration's Personnel Division. On June 6, 1977, the Reverend Joseph Harrington, Chairman, Merit System Council informed me he was aware the Personnel Division was drafting a proposal. However, neither Reverend Harrington nor the other Council members have seen the proposal.

The Legislative Auditor is aware of the numerous errors involving Merit System financial transactions made by the Department of Administration since the Department centralized this function. With regard to your recommendation on page four (4) of your report we agree the Department of Administration delegate to the Merit System Council the authority to administer our own financial transactions as long as the Council remains separate from the Personnel Division.

It is my understanding that since the issuance of Management Memorandum 70-17 the Management Systems Division, Department of Administration is developing a standardized procedure for the inventory of fixed assets.

Morris L. Brusett
page 2
June 9, 1977

That standardized procedure is still in the stages of development. However, the Merit System office will implement or has implemented the following procedures to comply with the following recommendations:

1. Recommendation one (1), page five (5).
The Merit System Bureau is in the process of changing over fixed asset records from our current card index system to an inventory working paper system. We insure in accordance with Management Memorandum 70-17 the Merit System will:
 - (a) Take a physical inventory of all fixed assets on June 30 of each fiscal year.
 - (b) Retain inventory working papers for subsequent audit purposes.
 - (c) Record all changes in fixed assets between inventory dates.
2. Recommendation number two (2), page six (6).
 - (a) The Merit System will dispose of unused or obsolete assets in accordance with Section 82-1914, R.C.M. 1947. Unused and obsolete equipment is being traded in for three new typewriters.
3. Recommendation number three (3), page six (6).
 - (a) During a conference on the first discussion draft issue the Legislative Auditor was shown our inventory records for CETA equipment on loan to the Merit System office by the State Job Service. Such inventory records are also on file in the Job Service administration building.

Recommendations regarding paragraphs one (1) and two (2), page six (6). As Administrator, Montana State Merit System Council, I met formally with Mr. Larry D'Arcy, Deputy Director, Department of Administration, on the subject of utilization of the centralized mail system. Mr. D'Arcy sent to me on July 12, 1976 a memorandum regarding our conversation. Mr. D'Arcy's recommendation to me was to eliminate our postage inventory and utilize the Capitol Post Office postage metering service. The Merit System fully supports the recommendation of Mr. Larry D'Arcy and Mr. Morris Brusett. However, several problems are encountered:

1. The Merit System Council provides return postage for all test materials mailed to test monitors. Allowing the Capitol Post Office postage metering service to remove test materials for weighing and affixing the necessary return postage compromises the Test Security Agreement signed between the Montana State Merit System Council and the United States Civil Service Commission, the International Personnel Management Association and the American

Society of Personnel Administration.

2. Not all Merit System test monitors represent state agencies. Some monitors represent school districts and some represent private industry. Those individuals outside the purview of state government refuse to absorb postage costs on a reimbursable basis. No Warrant Transfers are not applicable to these situations.

The Merit System has indicated to the State Auditor that every effort will be made to comply with this recommendation. Since postage stamps are negotiable items, perhaps the State Department of Administration would authorize the Merit System Council its own postage meter until such a postage system, amenable to the aforementioned agencies, public and private, could be developed. Such authorization would certainly reduce access to postage stamps by Merit System employees.

Recommendation number one (1), page seven (7). It was pointed out to the Legislative Auditor the Merit System is in compliance with this recommendation. In addition to sign in/out sheets, employees have been informed they are to properly complete, on a daily basis form DA 108, "Attendance Report." Individual DA 108 forms are checked by the Bureau Accountant and rechecked and approved by the Administrator, Merit System Council.

Recommendation number two (2), page seven (7). As indicated in the immediately preceding paragraph all time sheets are formally approved by the Administrator, Merit System Council.

Recommendation for paragraph one (1), page eight (8). The Merit System is currently and has been in compliance with this recommendation since the initial audit by Mr. David Gould, Office of the Legislative Auditor. All requests for leave of absence by Merit System office employees are properly documented on form P-1, "Employee Request for a Leave of Absence."

Recommendation number one (1), page nine (9). Since the initial visit of the field auditor, Office of the Legislative Auditor, the Merit System Administrator requires that each employee complete a separate leave request, form P-1, for each absence other than sick leave.

Recommendation number two (2), page nine (9). The Merit System office has been in compliance with this recommendation since the initial visit of the field auditor, Office of the Legislative Auditor. The Merit System Administrator approves, in advance, all requests for leave of absence other than sick leave.

Recommendation number three (3), page nine (9). The Merit System office has been in compliance with this recommendation since the initial visit of the field auditor, Office of the Legislative Auditor. The Merit System

Morris L. Brusett
page 4
June 9, 1977

Administrator has established adequate controls in compliance with the Montana Administrative Manual to prevent excessive or improper use of sick leave.

Recommendation regarding paragraphs one (1) and two (2), page ten (1). The Merit System office has been in compliance with this recommendation since the initial visit of the field auditor, Office of the Legislative Auditor. The Merit System Administrator has discontinued the practice of allowing employees their birthday off with pay.

Recommendation of paragraph one (1), page eleven (11). The Merit System office is in compliance with this recommendation. A Merit System employee other than the individual who prepares the payroll has been instructed to pick up and deliver to each individual employee, payroll warrants. That employee has been instructed to deliver to the Administrator, Merit System Council, all unclaimed payroll warrants. Ghost warrants will be immediately reported to the Department of Administration.

Recommendation number one (1), page twelve (12). The Merit System office will require contracts with providers of contract services. We have requested sample contract documents from the Office of the Legislative Auditor which will serve as models for developing our own contracts.

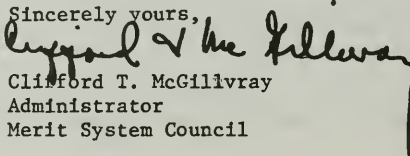
Recommendation number two (2), page twelve (12). The Merit System office will require adequate supporting documentation on invoices for contracted services.

Recommendation top of page thirteen (13). The Merit System Council Accountant has been instructed that all Merit System Council travel expense vouchers will be properly completed and will be in compliance with the travel regulations set forth in MAM Section 1-1020.10. The nature and purpose of all travel will be documented in appropriate space provided on travel claims.

Recommendation bottom of page thirteen (13). I have sent correspondence to Mrs. Vern Harris, Manager, Power Block, requesting reimbursement of parking fee overpayments. A copy of that correspondence is attached for your convenience.

The Merit System has solicited an audit for the past three and one-half years. We have welcomed this audit and found your field auditor, Mr. David Gould, to be most helpful, courteous and professional. Suggestions and recommendations that would improve the efficiency of this agency in providing services to our member agencies and the citizens of the State of Montana are always welcomed.

Sincerely yours,


Clifford T. McGillivray
Administrator
Merit System Council

CTM/rn
Encl.



STATE OF MONTANA
DEPARTMENT OF ADMINISTRATION
MERIT SYSTEM COUNCIL
CAPITOL STATION
HELENA 59601

June 7, 1977

Mrs. Aurethia M. Harris, Manager
Room 420
Power Block Building
Helena, MT 59601

Dear Mrs. Harris:

This agency has recently undergone an audit by the office of the Legislative Auditor. The legislative auditor has found that this office was charged \$28.50 more per month for parking fees than that specified in the lease agreement. The auditor has indicated that this office incorrectly paid to you that additional \$28.50 per month for a nine month period of time until our lease ran out on June 30, 1976. The total ammount of parking over paid is \$257.00. In accordance with the recommendation made by Mr. Morris L. Brusett, we are seeking reimbursement in the ammount of \$257.00 for parking fees over paid.

Your cooperation in this matter would be greatly appreciated.

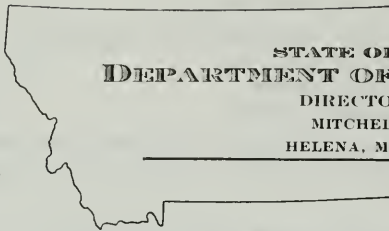
Sincerely yours,

Clifford T. McGillvray
Clifford T. McGillvray
Administrator
Merit System Council

CTM/rn



THOMAS L. JUDGE, Governor



STATE OF MONTANA
DEPARTMENT OF ADMINISTRATION
DIRECTOR'S OFFICE
MITCHELL BUILDING
HELENA, MONTANA 59601

June 8, 1977

Mr. Morris L. Brusett
Legislative Auditor
Office of the Legislative Auditor
State Capitol
Helena, Montana 59601

JUN 9 1977
MONTANA LEGISLATIVE AUDITOR

Dear Mr. Brusett:

In accordance with your request, I have reviewed the report on the audit of the Merit System Bureau and submit the following response to the recommendations directed to the Department of Administration:

RECOMMENDATION, Page 4

We recommend that the Department of Administration delegate to the bureau the authority to administer its own transactions as long as the bureau remains separate from the Personnel Division.

In the event the proposed agreement is not arrived at, we would concur with the recommendation. We do not concur with this procedure as a general policy for all attached to agencies. A decision to centralize or decentralize must be based on careful evaluation of each situation.

Sincerely,

Jack C. Crosser
Jack C. Crosser
Director

JCC:bc



